



NEWS RELEASE

OFFICE OF THE UNITED STATES ATTORNEY
WESTERN DISTRICT OF MISSOURI

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FOR IMMEDIATE RELEASE

(NOTE: Excerpts from today's press conference will be available to download as MP3 digital audio files from the district's Web site, www.usdoj.gov/usao/mow)

CATTLE BUYERS INDICTED IN \$166 MILLION 'PHANTOM CATTLE' FRAUD

KANSAS CITY, Mo. – Todd P. Graves, United States Attorney for the Western District of Missouri, announced that two defendants working together in a cattle investment business were indicted by a federal grand jury today in the largest financial fraud ever prosecuted in the Western District of Missouri – a \$166 million scheme that involved victims in several Midwestern states.

George L. Young, 72, of Grant City, Mo., and **Kathleen I. McConnell**, 53, of Kansas City, Mo., co-owners of United Livestock Services, LCC (formerly MFA Livestock Services, LCC) and Professional Business Services, were charged in a five-count indictment returned by a federal grand jury meeting in Kansas City today.

Through their businesses, Graves explained, **Young** and **McConnell** offered to purchase cattle for their clients, to provide care and feeding of those cattle, and to sell the cattle at a profit. The federal indictment alleges that **Young** and **McConnell** did not purchase the cattle as claimed, but instead falsified records and made misrepresentations in order to defraud numerous ranchers, farmers, business associates (including MFA Livestock Association, Inc.), and federally insured financial institutions (including First National Bank of Omaha and US Bank, both located in Omaha, Nebraska).

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At the time **Young** and **McConnell** ceased doing business on August 10, 2001, records indicate that the defendants had 343,937 head of cattle under their control. Instead, Graves said, only 16,946 head of cattle, valued at approximately \$9.2 million, actually existed. Graves estimated the loss suffered by the defendants' clients and lending institutions is approximately \$166 million. Graves noted that the defendants' companies' assets are now in the control of the bankruptcy trustees.

Graves said victims of the fraud included individual investors, ranchers, farmers and cattle companies who borrowed funds to buy cattle, and who then lost the collateral they had pledged to secure their loans when the defendants suddenly ceased operations in August 2001. In some cases, Graves said, the collateral pledged and lost included family farms that had been owned by the same families for over 100 years, while other individuals lost their retirement savings in the scheme. According to Graves, the defendants' scheme jeopardized the safety and soundness of at least two federally insured financial institutions that loaned money directly to the defendants, or the defendants' businesses.

BUSINESS BACKGROUND

Young began employment with MFA Livestock Association in Marshall, Mo., on September 16, 1984. **Young** also operated his own individually owned cattle feeding and management business with a large client base. Since the early 1990s, **McConnell**, doing business as Professional Business Services (PBS), provided bookkeeping and accounting services for **Young**. PBS was incorporated by **Young** and **McConnell**, each owning 50 percent of the company, on June 13, 1991.

In the early 1990s, **Young** purchased a one-third interest in a commercial feedlot and grazing operation, which was incorporated in the state of Kansas under the name Rio Baca, Inc. A separate corporation, Rio Timba, Inc., also one-third owned by **Young**, was incorporated in the state of Iowa as the company owning the land on which the Rio Baca feedlot was located. The Rio Baca / Rio Timba operation was physically located in southwest Iowa.

MFA Livestock Services, LLC, was formed as a separate business entity to purchase livestock for the clients of **Young's** cattle feeding and management business, separate and distinct from MFA Livestock Association. MFA Livestock Services, LLC, was 75 percent owned by MFA Livestock Association and 25 percent owned by PBS, Inc. On March 23, 2000, MFA Livestock Services, LLC's name was changed to United Livestock Services, LLC, as a result of the merger of MFA Livestock Association and Producers Livestock Association.

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PHANTOM CATTLE SCHEME

According to Graves, **Young** and **McConnell**, through United Livestock Services, LLC, and PBS, Inc., often paid clients rates of return far above industry averages to induce their clients to invest in the defendants' livestock operations, and to induce business associates and financial institutions to provide funding for the defendants' business operations. In reality, the indictment alleges that the defendants knew that their cattle operations were not generating the rates of return they were paying to their clients. In order to obtain funds when the cash flow was inadequate to cover the obligations of their business activities, the indictment alleges, **Young** and **McConnell** knowingly falsely represented to clients, business associates and financial institutions that their inventory of cattle was far higher than it actually was, causing clients to continue to invest money in the defendants' cattle operations and causing business associates and financial institutions to advance funds to the defendants.

In furtherance of the scheme to defraud, Graves explained, **Young** and **McConnell** would obtain money from clients to purchase cattle and have these cattle fattened for market. Rather than purchasing additional cattle for their clients, the indictment alleges, the defendants actually used their clients' funds to cover cash shortfalls, business expenses, and to pay other clients whose cattle had supposedly matured and been sold.

According to the indictment, the phantom cattle would be carried on the defendants' books and records as inventory. Once one false document was created, Graves explained, it was necessary to create numerous additional false documents so that the original document would appear to be legitimate. **Young** and **McConnell** routinely created documents that recorded cattle transactions that did not occur, the indictment alleges, then used the fraudulently created cattle inventory as collateral to access funds from their companies' line of credit at First National Bank of Omaha.

According to the indictment, **Young** and **McConnell** knowingly provided false statements to First National Bank of Omaha and US Bank that deliberately concealed material information about the business's finances and the true number of cattle in inventory. Those fraudulent documents included false cattle inventory reports, false cattle accounts receivable reports, and false financial statements, allegedly created to conceal the fact that the cattle inventories were substantially less than those represented to clients, business associates and financial institutions. These false representations, Graves explained, were made to induce clients to invest with the defendants' businesses and to the financial institutions to continue their lending relationships with the defendants and their businesses and to obtain the maximum funding allowed by each line of credit.

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On a monthly basis, **McConnell** provided First National Bank of Omaha a Borrowing Base Certificate that contained representations about cattle inventories and accounts receivable. According to the indictment, **Young** and **McConnell** knew those documents contained false and fraudulent representations about cattle inventories and accounts receivable. The alleged purpose of these false and fraudulent Borrowing Base Certificates was to induce First National Bank of Omaha to release funds to the defendants under United Livestock Services, LLC's line of credit at the bank. During the pendency of the scheme, the defendants allegedly claimed that a substantial portion of the transferred funds was used to buy cattle that they did not actually purchase.

In order to protect the scheme, the indictment alleges, **McConnell** prevented her staff at PBS, Inc. from detecting the defendants' ongoing fraudulent activities. **McConnell** allegedly accomplished this by ensuring that the employees' duties did not overlap, positions did not rotate within the office, employees did not communicate among themselves about their specific tasks and did not have contact with clients, and were not aware of significant cash flow problems of the business.

Young acted as the field person for the businesses. Graves explained that **Young** and **McConnell** were careful to schedule inspection trips for clients and representatives of their financial institutions at different times. During the inspection trips, the indictment alleges, **Young** made false statements to clients and bankers about the number of cattle they owned or that were being used as collateral for lines of credit. In fact, according to the indictment, **Young** had shown the same cattle to other clients and bankers, making the same representations of ownership. **Young** also allegedly showed clients and bankers cattle that he did not own or control, which belonged to others, making the same representations of ownership to clients and bankers. (The cattle belonging to others were either located in the feedlots in which **Young** placed cattle or in feedlots and pastures in close proximity.)

FIVE-COUNT INDICTMENT

Graves explained that the various counts contained in the federal indictment identify specific actions taken by **Young** and **McConnell** in the course of the fraud scheme.

Count One of the federal indictment alleges that on September 20, 1999, **Young** and **McConnell**, aiding and abetting each other for the purpose of executing the scheme to defraud and obtain money by means of material false and fraudulent pretenses, mailed a \$1,202,381.83 check drawn on the account of MFA Livestock Services, LLC, at First National Bank of Omaha, delivered by the United States Postal Service to Farmers' National Bank, a branch of Midwest Bank, N.A., in Pilger, Nebraska, to induce an individual to continue to invest his money and funds in the defendants' cattle feeding operations.

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Count Two of the federal indictment alleges that on March 14, 2000, **Young** and **McConnell**, aiding and abetting each other for the purpose of executing the scheme to defraud a financial institution, transmitted a facsimile requesting a \$336,937.28 cash transfer from a line of credit at U.S. Bank in Omaha, Nebraska, from the account of **George Young**, dba Young Farms, to the account of MFA Livestock Services, LLC, at First National Bank of Omaha.

Count Three of the federal indictment alleges that on July 25, 2001, **Young** and **McConnell**, aiding and abetting each other for the purpose of executing the scheme to defraud and to obtain money by means of material false and fraudulent pretenses affecting a financial institution, mailed a Borrowing Base Certificate sent and delivered by the United States Postal Service to First National Bank of Omaha, to induce First National Bank of Omaha to make a \$677,213.28 advance of funds to United Livestock Services, LLC on its \$23 million line of credit at that bank.

Count Four of the federal indictment alleges that, on August 17, 2000 **Young** and **McConnell**, aiding and abetting each other, made a material false entry in a record required to be kept by any person, partnership or corporation subject to the Packers and Stockyards Act, that is, in a combined check/memo form for a check drawn on the account of United Livestock Services, LLC, at the First National Bank of Omaha in the amount of \$105,751.96, falsely and fraudulently recorded a material fact in the "account of sale" portion of that document, the purchase of 162.75 cattle weighing 131,976 pounds, when, in fact, the defendants well knew that cattle had not been purchased with the check.

Count Five of the federal indictment contains a criminal forfeiture charge that requires the defendants to forfeit to the United States any proceeds obtained from the fraud, including \$24,539,320, representing the amount of proceeds obtained as a result of the offenses alleged in Counts One, Two and Three.

Graves cautioned that the charges contained in the indictment are simply accusations, and are not evidence of guilt. Evidence supporting the charges must be presented to a federal trial jury, whose duty is to determine guilt or innocence.

The case is being prosecuted by Assistant U.S. Attorney Kenneth E. Weinfurt. It was investigated by the Federal Bureau of Investigation, the U.S. Department of Agriculture – Grain Inspectors, Packers & Stockyards Administration, and the U.S. Department of Agriculture, Office of the Inspector General.

This news release, as well as additional information about the office of the United States Attorney for the Western District of Missouri, is available on-line at
www.usdoj.gov/usao/mow